

Stocks hit while yields and dollar rally on hawkish Fed with Warsh at the helm

- **SNAPSHOT:** Equities down, Treasuries down, Crude up, Dollar up, Gold down
- **REAR VIEW:** Fed holds rates as expected; FOMC statement, SEP's, and Chair Warsh come in hawkish; US Retail Sales beat; Pending Home Sales rise in May; EIA crude stocks draw more than expected; Softer-than-expected UK CPI; Riksbank holds rates
- **COMING UP:** **Data:** UK Employment Report (Apr), Average Earnings (May), Canadian PPI (May), US Initial Jobless Claims (Jun/13), New Zealand Trade Balance (May). **Events:** SNB Policy Announcement, Norges Bank Policy Announcement, BoE Policy Announcement, CNB Policy Announcement, UK Makerfield by-election. **Speakers:** Norges Bank's Bache; SNB's Schlegel; ECB's Elderson, Cipollone, Lane. **Supply:** Spain, France, US.

MARKET WRAP

A broad-based hawkish reaction was seen across markets, given a much more hawkish than anticipated Federal Reserve decision (reviews below). Given this, US indices saw losses with all sectors in the red, with Treasuries sold and precious metals noticing extensive losses, with spot silver underperforming its counterpart. The Dollar saw significant strength post-Fed, to the detriment of G10 FX peers, with high-beta FX lagging ahead of a few central bank decisions on Thursday, namely SNB, BoE, and Norges. WTI and Brent were very choppy on Wednesday and settled with slight gains, as geopolitics took a back seat, for the first time in a while, as attention focuses on the official signing of the US/Iran MoU, with some suggesting it may even come before Friday. On the data footing, US retail sales surpassed Wall St. consensus, but garnered little market reaction, given all focus was on the FOMC later in the session.

FED

Overall, the statement and dot plots were more hawkish than expected. The Fed kept rates on hold as widely expected but completely changed the FOMC statement, in a unanimous decision. The committee agreed to remove forward guidance completely, while it also updated its descriptions of the economy, adding more factors to the statement:

Inflation

The Committee reiterated that inflation remains elevated, but updated its language to note that inflation is running above its 2% goal "in part reflecting supply shocks that have driven price increases in certain sectors, including energy" (prev. "in part reflecting the recent increase in global energy prices"). The statement also explicitly reaffirmed the Committee's commitment to achieving price stability.

Employment

The labour market assessment was upgraded. The Fed now states that "job gains have kept pace with the workforce, and the unemployment rate has changed little" (prev. "job gains have remained low, on average, and the unemployment rate has been little changed in recent months"), reflecting the recent run of stronger payroll reports.

Economic Activity

The Committee noted that economic activity is "expanding at a solid pace despite elevated uncertainty that owes, in part, to the conflict in the Middle East" (prev. "economic activity has been expanding at a solid pace"). It also added a new line stating that "productivity growth and capital investment are strong."

Reserves

The statement also explicitly reaffirmed the Committee's policy of maintaining ample reserves in the banking system.

Dot Plots

The updated Summary of Economic Projections was notably hawkish. One participant did not submit forecasts, widely believed to be Chair Warsh, given his recent arrival at the Fed and his well-known scepticism towards forward guidance.

The median federal funds rate projection for 2026 rose to 3.8% from 3.4%, implying one 25bp rate hike versus one 25bp rate cut in the March projections. The 2027 median rose to 3.6% from 3.1%, implying rates are expected to remain on hold through the end of 2027. The 2028 median increased to 3.4% from 3.1%, while the longer-run rate remained unchanged at 3.1%.

The economic projections also reflected a more stagflationary outlook. Inflation forecasts were revised higher, unemployment projections were revised slightly lower in 2026, and real GDP growth forecasts were downgraded.

The distribution of dots was equally notable. While the median projects one hike in 2026, one participant forecasts three hikes, five project two hikes, and three project one hike. In March, no participants projected rate hikes. Meanwhile, eight participants expect

rates to remain unchanged through 2026 (prev. seven), while only one projects a rate cut (prev. seven). The shift in the distribution highlights a significant hawkish turn within the Committee and suggests policymakers are increasingly focused on inflation risks rather than labour market concerns.

FED CHAIR WARSH:

Warsh's first press conference largely echoed the hawkish statement given his strong emphasis on returning inflation to the target. When asked about employment, he said the committee thought the labour market was stable, but some thought it was trending better than that, adding that trends matter more than data points. He was also asked about how restrictive he views policy, in which he gave a hawkish response; he said it is "uneven", noting the only place you could see it as restrictive is in the housing market. Warsh also confirmed it was him who did not submit a dot plot forecast, as he does not see it helpful on how to conduct policy - this could imply he may not submit dots again in two meetings' time. Regarding the hawkish shift in his colleagues' dot plots, he said they did not feel bound by their dots, and he did not hear a lot of conviction about them. On SEPs, Warsh added that the FOMC made a commitment to deliver projections and expects them to live up to that, but by the end of the year, would not be surprised if there is a new communications framework and changes to SEPs. When asked about whether a rate cut was discussed, Warsh said there was one proposal on the table, very little discussion on it, no discussion on any other proposals - he didn't specify the direction of the proposal.

The new Fed Chair also announced he will put five task forces together to review certain topics: 1) Communication: Expects to propose changes, including to SEPs. 2) Balance sheet: Review the benefits and risks of an ample reserve regime, and the composition of the balance sheet. 3) Use of data sources: Consider new data sources and methodological changes. 4) Productivity and Jobs: Will survey the reach of AI and other general-purpose tech. 5) Fed's inflation frameworks: Will examine drivers of inflation.

US

RETAIL SALES: US retail sales rose 0.9% M/M in May (exp. 0.5%, prev. 0.4% revised from 0.5%), exceeding the top end of the forecast range and pointing to resilient consumer demand. The details were also firm, with retail sales ex-autos rising 0.8% M/M (exp. 0.5%, prev. 0.7%), retail sales ex-autos and gas increasing 0.5% M/M (prev. 0.5%), and the closely watched control group advancing 0.7% M/M (exp. 0.4%, prev. 0.5%), matching the top end of forecasts. The broad-based gain was led by gasoline stations (+3.4%), nonstore retailers (+1.5%), motor vehicle and parts dealers (+1.2%), and miscellaneous retailers (+2.3%), while food services and drinking places (-0.1%) and electronics and appliance stores (-0.5%) declined. On an annual basis, headline retail sales rose 6.9% Y/Y, with nonstore retailers up 12.2% Y/Y and gasoline stations up 26.5% Y/Y. Oxford Economics notes that the stronger-than-expected report is consistent with real consumer spending growth running just above 2% annualised in Q2, above its baseline forecast. While Oxford believes tax refunds continued to support spending in May and higher gasoline prices could weigh on consumption in the coming months, it argues that the US consumer remains resilient.

PENDING HOME SALES: Pending home sales rose 3.8% M/M in May, above the expected 1.3%, with Y/Y lifting 4.8%. M/M and Y/Y pending home sales rose in the Northeast, Midwest, South and West. NAR Chief Economist Yun said, "A late spring buyer rush, even with mortgage rates not budging, is an indication of pent-up housing demand and consumers' acceptance of above-6% mortgage rates as the new normal". He added, "The inventory-constrained Northeast region, which has seen faster home price growth but slower home sales for several months, is now showing more buyer contract signings. More supply is needed to help moderate home price growth."

FIXED INCOME

T-NOTE FUTURES (U6) SETTLE 12 TICKS LOWER AT 109-18

T-notes bear flattened on Wednesday following a hawkish FOMC decision and a hawkish first press conference from Chair Warsh. At settlement, 2-year +16.2bps at 4.216%, 3-year +14.5bps at 4.239%, 5-year +11.8bps at 4.280%, 7-year +9.1bps at 4.381%, 10-year +5.6bps at 4.495%, 20-year +0.7bps at 4.950%, 30-year -1.4bps at 4.927%.

THE DAY: Treasuries sold off sharply on Wednesday, with losses concentrated in the front-end following a hawkish FOMC decision under Chair Warsh. The curve bear flattened as markets repriced the policy outlook, with 2-year yields rising more than 16bps while the long end was little changed.

The Fed left rates unchanged as widely expected, but delivered a significant hawkish shift in communication. The Committee unanimously removed forward guidance from the statement, placed greater emphasis on inflation and its commitment to price stability, and upgraded its assessment of the labour market. The updated SEP projections were also hawkish, with the median path now implying one rate hike this year versus one rate cut previously. Inflation forecasts were revised higher, while unemployment and growth projections were revised lower for 2026.

Chair Warsh confirmed he was the participant who did not submit SEP forecasts, arguing that dot plots are not particularly useful for conducting monetary policy. However, he stressed that policymakers do not feel bound by their projections. Elsewhere in the press conference, Warsh characterised policy restrictiveness as "uneven", suggesting housing is the primary area where higher rates are materially weighing on activity, but rates are not restrictive to financial markets. He also placed considerable emphasis on returning inflation to target and showed little concern about current labour market conditions.

Given Warsh was appointed by President Trump, who has repeatedly favoured lower interest rates, the press conference reinforced the Fed's independence and suggested inflation remains the dominant policy concern. Markets responded by increasing expectations for further tightening, with money markets once again fully pricing a 25bp rate hike by year-end.

Elsewhere, both US and Iranian media released further details of the memorandum of understanding ahead of a formal signing expected within the next 48 hours. Oil prices ultimately traded little changed, paring earlier gains as the stronger Dollar and hawkish Fed offset support from ongoing geopolitical developments.

There was little reaction to the stronger-than-expected retail sales report, with the FOMC decision and Chair Warsh's first press conference dominating market attention throughout the session.

SUPPLY

Notes

- US Treasury to sell USD 24bln of 5-year TIPS on June 18th, to settle June 30th

Bills

- US sells 17-wk bills at high-rate 3.670%, B/C 2.87x
- US to sell USD 75bln of 8-wk bills and USD 70bln of 4-wk bills on June 18th; all to settle on June 23rd

STIRS/OPERATIONS

- **Fed Pricing: 26bps (prev. Dec 18.7bps)**
- EFFR at 3.63% (prev. 3.63%), volumes at USD 106bln (prev. USD 102bln) on June 16th
- SOFR at 3.63% (prev. 3.69%), volumes at USD 3.137tln (prev. USD 3.147tln) on June 16th
- NY Fed RRP op demand at 6.83bln (prev. 10.72bln) across 16 counterparties (prev. 5) on June 17th

CRUDE

WTI (N6) SETTLED USD 0.74 HIGHER AT USD 76.79/BBL; BRENT (Q6) SETTLED USD 0.59 HIGHER AT 79.55/BBL

The crude complex was choppy on Wednesday, but ultimately settled with higher prices amid plentiful Middle East reporting, although participants await the formal signing on Friday. On that, there were conflicting reports regarding the US/Iran in Switzerland on Friday, as Iran Nuances, citing sources, said that Iran and US may sign the MoU at a high political level remotely and is now under active consideration. However, many outlets following this said that the news about the cancellation of the Iranian delegation's trip to Switzerland is false, and no change has been made in the Geneva talks schedule as of the time of writing. Axios reported that the US and Iran, and the mediators, are discussing holding the signing of the MoU, currently scheduled for Friday, as early as Wednesday. The Axios piece weighed on prices, gradually eroding earlier upside. Nonetheless, Middle East rhetoric dominated the tape ahead of the FOMC. In response to the latest central bank confab, benchmarks were little changed. WTI and Brent traded between USD 74.09-79.18/bbl and USD 77.75-82.97/bbl, respectively.

EQUITIES

CLOSES: SPX -1.21% at 7,420, NDX -0.99% at 29,671, DJI -0.97% at 51,498, RUT -0.72% at 2,918

SECTORS: Communication Services -2.98%, Consumer Discretionary -2.69%, Real Estate -2.47%, Consumer Staples -2.08%, Health -1.41%, Materials -1.35%, Utilities -1.29%, Energy -1.15%, Technology -0.61%, Financials -0.52%, Industrials -0.12%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.80% at 6,307, Dax 40 +0.08% at 24,932, FTSE 100 +0.14% at 10,509, CAC 40 -0.20% at 8,431, FTSE MIB +0.31% at 52,595, IBEX 35 +1.31% at 19,415, PSI +0.76% at 9,091, SMI +0.39% at 13,815, AEX +1.18% at 1,083

STOCK SPECIFICS:

- **Intel (INTC)** 18A-P chip process has entered risk production.
- **Microsoft (MSFT)** walked away from a USD 3bln deal to lease **Oracle (ORCL)** cloud capacity over security concerns. In response, Oracle disputed the BI report, calling the details in the report inaccurate.
- **Diana Shipping (DSX)** raised its offer to acquire **Genco Shipping & Trading (GNK)** for USD 27.34/shr.
- **AST SpaceMobile (ASTS)** successfully launched BlueBird 8, 9, and 10 satellites aboard a Falcon 9.
- **Netflix (NFLX)** denied reports that it planned to acquire Lionsgate Studios (LION).
- **Aehr Test Systems (AEHR)** announced a follow-on production order for its FOX-XP wafer-level burn-in system.

EARNINGS:

- **La-Z-Boy (LZB):** Earnings & outlook beat; announced new USD 300mln share buyback.
- **CarMax (KMX):** EPS & rev. beat.

BROKER MOVES:

- JPMorgan reiterated 'Overweight' rating for **Broadcom (AVGO)**.
- Citi initiated coverage of **Figma (FIG)** with a 'Buy' rating and USD 36 PT.
- **Leidos Holdings (LDOS)** was downgraded at BofA to 'Neutral' from 'Buy'.

FX

USD saw strength in response to the FOMC statement and dot plots, which saw 9 members see at least one hike by year's end. The Fed held rates, as expected, and delivered a completely new statement in Warsh's inaugural meeting as the Chair. Whilst the statement omitted forward guidance, markets felt the outlook was provided through the dot plots, namely, many members seeing hikes this year and rates remaining higher from current levels through 2027. A prompt hawkish reaction was seen across markets, furthered by the language addition within the statement that "The Committee will deliver price stability", whilst mentions on the labour part of the mandate were limited, showing a heavy inflation tone skew. Warsh maintained this throughout his press

conference and refrained from the dovish image some had anticipated, in particular, mentioned productivity growth, but did not try to argue that AI productivity growth would enable potential cuts. Warsh doesn't believe they have a cruel choice between full employment and stable prices, suggesting he potentially views employment as stable at current levels, with the Fed's current fight solely on inflation. DXY rallied to 100.57 from the 99.65 seen before the rate announcement. As it stands, money markets have returned to fully pricing in one 25bps rate hike by year's end.

Outside of the US, a cooler-than-expected UK CPI print, which fell beneath BoE forecasts on both a headline and core basis, added pressure to GBP. Services were also cooler than the BoE forecast, but in line/hotter than analyst forecasts. Cable fell to a trough just below the 1.34 mark, dipping below its 200DMA @ 1.3418 before extending to lows of 1.3262 on the late-stage USD strength.

Two-way action was seen in SEK post-Riksbank, which was softer throughout the session despite Riksbank forecasts implying a greater chance of a 2026 hike. SEK pressure was seemingly due to the forecasts and statement being influenced by information up to the 11th of June, as such the fall in energy benchmarks seen in the last few sessions on the US-Iran MOU progress is not accounted for, and therefore the hawkish tilt to the policy forecast is likely to be unwound in the next meeting, if the MoU holds and the energy retreat sticks and/or extends. In response to the Fed, USD/SEK hit highs of 9.5374 from earlier 9.3420 lows.

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